ing U.S. tax structure, revenues increase and fall about 10 percent faster than GNP. Hence a recorded surplus may reflect, not a restrictive policy, but an expansionary policy under which tax revenues rose faster than Government spending. To measure the fiscal impact of Federal activities, additional analytical tools must be developed.

Another important contribution the study group could make would be to provide a framework for analyzing fiscal impact of all budget projections, both spending and taxation, on a semiannual basis. This would not only make short-run or cyclical analysis more meaningful but would also make it far easier to convert fiscal year estimates to calendar year estimates. Semiannual estimates become very important when expenditures and corresponding tax increases take effect in different halves of the year. This occurred in the social security program in fiscal 1966 and is proposed for fiscal 1968. The same is true of the excise tax cuts in fiscal 1966: some took effect at the beginning of fiscal year 1966 and others took effect at the beginning of the calendar year (midway through the fiscal year).

The American Bankers Association offers its assistance in these approaching studies. They are both timely and necessary.

SELECTED USES OF ECONOMIC GROWTH

This chapter of the 1967 report treats a wide range of social welfare problems on which the Council takes no position but attempts to raise some issues that will require difficult choices. The issues include poverty, income maintenance for the poor, public assistance, the proposal for a negative income tax, education, urban problems, and a discussion of the overall relationship between Federal, State, and local government finance. The common denominator underlying analysis of each of these problems is that they raise two emotion-laden issues: the size of the public versus the private sector, and the relative roles of Federal, State, and local governments.

It is a mistake to assume that planning with respect to uses of future economic growth must await the end of the Vietnam conflict, although admittedly the necessity for successful prosecution of the war calls for caution. But the fact is that, barring a greater Vietnam escalation than now seems likely, Federal defense spending can be expected to level off at or close to the level projected for the coming fiscal year. Federal revenues, however, should continue to increase with an expanding gross national product. The extent of this growth depends on our success in achieving a high and sustained rate of economic growth. If reasonably successful, we might expect gross national product to expand by 3 to 5 percent in the years ahead (over the next 3 or 4 years, about $25 to $35 billion on the basis of 1966 dollars) with an accompanying expansion in Federal revenues of up to $10 billion a year.

Clearly, therefore, it is not too early to begin public discussion and debate as to policies for using these additional revenues and thereby preventing excessive fiscal drag. The obvious choice in an overheated economy, such as occurred last year, would be to use at least a portion of the growing revenues to retire Federal debt; that is, to create and maintain as long as necessary a Federal surplus.

From a longer range standpoint, however, other alternatives are available. Experience in the first half of the 1960's indicated that